

Message Text

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PAGE 01 BRUSSE 05390 01 OF 02 180545Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /086 W
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R 171954Z MAR 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5560
INFO AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY ROME
AMEMBASSY LONDON
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY OSLO

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 05390

ALSO FOR USEC, USOECD

E.O. 11652: GDS
TAGS: EFIN, ECON, BE
SUBJECT: BELGIUM WORRIES ABOUT THE DOLLAR -- AND WONDERS
ABOUT THE FRANC

PASS TREASURY, FEDERAL RESERVE

1. SUMMARY. THE BELGIAN PUBLIC AND GOVERNMENT ARE VERY
WORRIED ABOUT THE DOLLAR'S FALL AGAINST THE "STRONG"
CURRENCIES, INCLUDING THE BF. THE LOCAL PRESS
HAS GIVEN THE STORY HEAVY PLAY, CONTRIBUTING TO WIDE-
SPREAD FEAR THAT THE WORLD COULD BE RISKING RENEWED
RECESSION AND TRADE PROTECTIONISM. IT IS GENERALLY FELT
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PAGE 02 BRUSSE 05390 01 OF 02 180545Z

THAT THE US COULD AND SHOULD DO MORE TO SUPPORT ITS
CURRENCY. WITH THE EXCEPTION OF A FIERY STATEMENT
BY FOREIGN MINISTER SIMONET PUBLISHED IN THE U.S., TOP
GOB OFFICIALS ARE SAYING LITTLE, NOT WANTING TO RISK
PERTURBING THE MARKET EVEN MORE.

2. THE EFFECT OF THE DOLLAR'S FALL ON THE BF THUS FAR IS

NEGLIGIBLE. CENTRAL BANK INTERVENTION TO MAINTAIN SNAKE MARGINS HAS NOT BEEN NECESSARY, FECOM BORROWINGS AND INTEREST RATES ARE DOWN, AND THE B/P REMAINS AT EQUILIBRIUM. NEVERTHELESS, UNCERTAINTY ABOUT THE DOLLAR COMBINED WITH CONTINUED HIGH UNEMPLOYMENT AND UNHAPPINESS IN SOME KY INDUSTRIAL SECORS IN BELGIUM COULD LEAD NATIONAL AUTHORITIES EVENTUALLY TO RECONSIDER WHETHER BELGIUM SHOULD MOVE TO A SIGNIFICANT DEVALUATION OF THE FRANC. END SUMMARY.

3. THE PRECIPITOUS FALL OF THE DOLLAR IN EUROPE OVER RECENT WEEKS IS A MAJOR, PERHAPS THE MAJOR CURRENT CONCERN OF THE BELGIAN GOVERNMENT AND PUBLIC. AS REPORTED BY USIS (BRUSSELS 4821) LOCAL MEDIA HAVE GIVEN PROMINENT NEWS AND EDITORIAL SPACE TO DEVELOPMENTS ON THE MONEY MARKETS, WITH STRONG CRITICISM OF U.S. POLICY. THE USG HAS BEEN VARIOUSLY CHARGED WITH EITHER "RACKETEERING", MOUNTING A "DOLLAR WAR" OR, AT LEAST, WITH EXTREME INSENSITIVITY TO THE EFFECT THE DOLLAR'S COURSE IS HAVING ON THE INTERESTS AND LIVELIHOODS OF OTHERS. PARTLY BECAUSE OF THIS MEDIA CAMPAIGN, BUT ALSO REFLECTING BELGIUM'S GREAT RELIANCE ON STABLE WORLD TRADE AND INVESTMENT CONDITIONS, EMBASSY OFFICERS HAVE BEEN BESEIGED WITH QUESTIONS ON THE ADMINISTRATION'S ATTITUDE FROM BOTH OUR REGULAR GOVERNMENT CONTACTS AND FROM PRIVATE BELGIAN AND U.S. MULTINATIONAL BUSINESSMEN. BEHIND SUCH CONFIDENTIAL

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PAGE 03 BRUSSE 05390 01 OF 02 180545Z

QUESTIONING, WE DENOTE MUCH APPREHENSION THAT THE DOLLAR'S SLIDE COULD TIP THE INDUSTRIALIZED COUNTRIES BACK INTO A NEW RECESSION, THIS TIME WITH HEIGHTENED PROTECTIONISM. THERE IS ALSO INCREDULITY THAT U.S. AUTHORITIES COULD NOT DO MORE IF THEY REALLY WANTED TO, EITHER ON THE MONETARY OR ON THE ENERGY FRONT.

4. PUBLICLY, TOP GOB OFFICIALS HAVE GENERALLY STAYED QUIET ON THE ISSUE. THE WATCHWORD IN THE FINANCE MINISTRY AND THE NATIONAL BANK (BNB) HAS BEEN TO "COOL IT", I.E., SAY AS LITTLE AS POSSIBLE IN THE CURRENT NERVOUS MARKET CLIMATE. ONE BLATANT EXCEPTION TO THIS RULE WAS A MARCH 7 JOURNAL OF COMMERCE INTERVIEW GIVEN BY FOREIGN MINISTER SIMONET (AND NOT CARRIED IN THE BELGIAN PRESS). IN HIS COMMENTS, SIMONET BLASTED U.S. OFFICIALS FOR BEING EITHER INDIFFERENT OR POWERLESS IN THE FACE OF THE DOLLAR'S DECLINE, CALLED FOR USG ACTION INSTEAD OF "BEAUTIFUL SPEECHES" AND TERMED AS "MONSTROUS" U.S. WILLINGNESS "TO LIVE PERMANENTLY BY BORROWING FROM OTHERS IN ITS OWN CURRENCY." OTHERWISE, THE ONLY PUBLIC COMMENT WE HAVE NOTED WAS A STATEMENT FROM FINANCE MINISTER GASTON GEENS WELCOMING LAST WEEKEND'S

U.S.-WEST GERMAN ACCORD AS FACILITATING A RETURN TO
NORMALCY (GEENS ALSO CALLED FOR SUPPLEMENTARY AND
COORDINATED REFLATION OF THE EUROPEAN ECONOMIES -- FOR WHICH
EUROPEAN GOVERNMENTS SHOULD TAKE MAJOR RESPONSIBILITY --
AND EXPRESSED THE FAMILIAR BELGIAN WISH THAT SUCH FUTURE
MONETARY NEGOTIATIONS BETWEEN THE U.S. AND EC COUNTRIES
INCLUDE THE EC ITSELF AS A PARTICIPANT).

5. A MAJOR QUESTION HERE, OF COURSE, IS HOW A CONTINUA-
TION OF THE DOLLAR'S FALL COULD AFFECT BELGIAN MONETARY
POLICY, BASED AS IT IS ON ITS TIE TO THE DM THROUGH THE
EUROPEAN CURRENCY SNAKE. FOR SHORT TERM, THE

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PAGE 01 BRUSSE 05390 02 OF 02 180546Z
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C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 05390

OUTLOOK IS NOT BAD. WITHOUT SERIOUS TENSIONS WITHIN THE
SNAKE, BELGIUM HAS NOT HAD TO INTERVENE IN THE MARKETS
SO FAR THIS YEAR. THE BELGIAN FRANC (BF) HAS BEEN REST-
ING COMFORTABLY AT AROUND DM 15.55 FOR SOME TIME, STILL
A SAFE MARGIN FROM ITS DM 15.76 CEILING. MEASURES TAKEN
LAST DECEMBER TO DEFEND THE BF WITHIN SNAKE MARGINS HAVE
BEEN VIRTUALLY UNWOUND; THE BNB HAS REPAID ALL BUT
BF 4.5 BILLION OF LAST DECEMBER'S FECOM BORROWINGS
(BF 25 BILLION OF DM EQUIVALENT) AND, ON MARCH 15, LOWERED

THE CENTRAL DISCOUNT RATE TO SIX PERCENT, ITS PRE-CRISIS LEVEL LAST NOVEMBER. YEAR-END BALANCE OF PAYMENTS FIGURES FOR 1977 RELEASED THIS WEEK CONFIRM CONTINUING STABILITY IN BELGIUM'S EXTERNAL ACCOUNTS THANKS PARTIALLY, OF COURSE, TO CHEAPER DOLLAR-DOMINATED IMPORTS; THE CURRENT ACCOUNT BALANCE IS A SMALL DEFICIT OF BF 11.3 BILLION, CONFIDENTIAL

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PAGE 02 BRUSSE 05390 02 OF 02 180546Z

VIRTUALLY NO CHANGE FROM 1976.

6. FOR THE LONGER TERM, HOWEVER, THE OUTLOOK FOR BELGIAN EXCHANGE RATE POLICY BECOMES LESS CLEAR. THE DOLLAR'S FALL HAS CAUSED NOT ONLY ATTACKS ON U.S. POLICY BUT ALSO STIMULATED THE MOST ACTIVE AND PUBLIC QUESTIONING OF OFFICIAL POLICY THAT HAS BEEN SEEN IN BELGIUM FOR SOME YEARS. A LEADING AND HIGHLY RESPECTED UNIVERSITY ECONOMIST, SAADI KIRSCHEN, TOUCHED OFF THE DEBATE WITH A LATE FEBRUARY PRESS EDITORIAL ARGUING THAT BELGIUM'S 7.4 PERCENT UNEMPLOYMENT RATE CAN ONLY BE REDUCED BY A NEW PACKAGE OF REFLATIONARY MEASURES, BUILT AROUND A TEN PERCENT BF DEVALUATION WITHIN THE SNAKE. OFFICIAL AND PRESS RESPONSE TO KIRSCHEN'S ARTICLE HAS BEEN ALMOST UNIFORMLY NEGATIVE, CITING THE FAMILIAR BNB CONTENTION THAT THE EFFECTS OF ANY BF DEVALUATION WOULD DISAPPEAR WITHIN SIX TO NINE MONTHS DUE TO INELASTIC IMPORT DEMAND AND WAGE INDEXATION (SEE BRUSSELS A-41 OF 2/22/78). (IN PRIVATE, BNB OFFICIALS HAVE ADDED THE REALPOLITIK ARGUMENT THAT NEITHER THE FRG NOR THE DUTCH WOULD EVER AGREE TO ALLOW BELGIUM TO STAY IN THE SNAKE AFTER SUCH A DEVALUATION VIS-A-VIS ITS PARTNERS).

7. UNLIKE THE PAST, HOWEVER, THE OPPOSITION HAS NOT BEEN STILLED. BOTH THE LARGE CHEMICAL AND STEEL FEDERATIONS HAVE FOR THE FIRST TIME, ALSO GONE PUBLIC IN RECENT DAYS TO CALL FOR GREATER EXCHANGE RATE FLEXIBILITY. THE STEEL FEDERATION POINTS OUT THAT THE BF'S APPRECIATION IN 1976-77, INCLUDING 11.2 PERCENT AGAINST THE DOLLAR AND 17 PERCENT IN FRANCE (BELGIUM'S MAIN FOREIGN STEEL CUSTOMER) TRANSLATES INTO A BF 6 BILLION LOSS FOR THE PERIOD IN THE BELGIAN STEEL INDUSTRY ALONE. MORE SIGNIFICANTLY, VARIOUS SOURCES TELL US THAT CERTAIN CONFIDENTIAL

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PAGE 03 BRUSSE 05390 02 OF 02 180546Z

MEMBERS OF THE GOVERNMENT, NOTABLY ECONOMIC AFFAIRS MINISTER CLAES, ARE BECOMING INCREASINGLY RESTIVE ABOUT A POLICY WHICH THEY BELIEVE MAY NOT

BE SUSTAINABLE FOR TOO MUCH LONGER -- PARTICULARLY IF
THE EMPLOYMENT PICTURE DOES NOT BRIGHTEN SOON
AND/OR IF THE DOLLAR CONTINUES TO SINK.

8. THE BETTING IS NEVERTHELESS STILL ON MAINTENANCE OF
THE MONETARY STATUS QUO IN BELGIUM FOR SOME TIME YET.
ANY POLICY SUPPORTED BY THE NATIONAL BANK, MOST BUSINESS
AND LABOR (EVEN INCLUDING THE COMMUNIST PARTY) OBVIOUSLY
STILL HAS A WIDE BASE. NEVERTHELESS, THE
SOLIDITY OF THIS BASE APPEARS TO BE CRACKING. IT IS THUS
CONCEIVABLE THAT IN THE GOVERNMENT'S BARGAINING IN
UPCOMING MONTHS WITH BUSINESS AND LABOR ON SOME MAJOR
ECONOMIC POLICY ISSUES (E.G., NEW INDUSTRIAL POLICY,
RESTRUCTURING OF THE STEEL SECTOR, BUDGET REFORM), A
POSSIBLE BF DEVALUATION COULD BECOME ONE OF THE CHIPS.
WHETHER IT DOES WILL LARGELY DEPEND ON EXTERNAL
FINANCIAL DEVELOPMENTS -- WHICH MEANS THAT WE CAN EXPECT
BELGIAN ATTENTION TO THE FATE OF THE DOLLAR TO REMAIN
INTENSE FOR THE FORESEEABLE FUTURE. CHAMBERS

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